



Committee Secretary
Senate Standing Committees on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600

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Submission of Stan Entertainment Pty Ltd

Executive Summary

Stan is the country's leading local SVOD service and is at the forefront of changing how Australians consume video content. We are also the home of Stan Originals. We have commissioned eight local productions to date, and have doubled our investment in producing original content each year since our launch in January 2015. We have expanded the demand for Australian content at home and overseas, and it is our intention to continue growing our investment in producing Australian content. We believe Stan will play an increasingly important role in Australian production, and our growth will continue to benefit the industry.

Response to the Terms of Reference

Inquiry into the economic and cultural value of Australian content on broadcast, radio and streaming services, with particular reference to:

- (a) The current state and operation of the market for Australian television and music industry, including competition issues relating to the relative market power of producers and broadcasters for traditional, streaming and catch up viewing**

Australia is a high cost market with a relatively small population. Therefore, government support is required to incentivise commercial operators to commission Australian content. Support helps to make the production of Australian content more cost-competitive compared with acquiring international programming. The problem with the current support system is that it was designed to support investment by



traditional commissioning broadcasters, with no consideration of emerging digital business models. Yet consumer take-up of digital streaming businesses is surging. According to market research firm Telsyte, SVOD subscriptions grew by 30 per cent to 5.4 million in the year ended June 2017, and more than half of Australian households now have SVOD or Pay TV services.

Existing government support structures for content production are less effective for commissioning SVOD platforms than their traditional broadcast rivals because different platforms and business models monetise content differently. SVOD services derive value from the entire period that a piece of content is licenced and available on platform, which is vastly different to free-to-air TV where the objective is to recoup the cost of a production by the time it premieres, either through advertising sponsorships or the spot market. Given SVOD services do not rely on advertising revenue, which generally requires attracting mass audiences at particular timeslots, they allow content creators greater flexibility to explore subject matter more deeply and to deliver innovative programming. This sort of edgy content, such as Stan's *Wolf Creek*, *No Activity* and *Romper Stomper*, has proven highly saleable overseas¹. For Stan, international sales present the most meaningful opportunity for production cost recoupment, largely due to the Australian market's limited size. While Stan has been successful in securing international distribution deals with leading overseas broadcasters, it has been hamstrung in its attempts to maximise value by the current system.

The two key impediments to Stan recouping reasonable value from international sales are i) the minimum \$440,000 per broadcast hour licence fee, and ii) the structure of grant funding and the Producer Offset.

i) Screen Australia requires a local presale of at least \$440,000 per broadcast hour from a commissioning platform to qualify for funding, and this presale is heavily restricted in terms of the rights and the license period that can be exploited. This is an overbearing, and often prohibitive, expense for Stan and, when compared to the cost of acquiring equivalent programming from overseas, offers little to no incentive to produce local content. Stan cannot secure any equity in a production it commissions within the \$440,000 an hour, yet it can buy premium US and international content, with significantly higher budgets and production values, for a fraction of this hourly fee. The minimum licence fee level was set in the context of

¹ Stan's *Wolf Creek* series was sold to Lionsgate in North America and Latin America, and to FOX in Britain. The format rights to Stan's comedy series, *No Activity*, were sold to United States SVOD service CBS All Access. *Romper Stomper* was sold to BBC Three in the UK, and to SundanceTV in Europe and Latin America.



television audience size and broadcast economics, both of which bear little or no relevance to the economics of SVOD.

Because SVOD services monetise content over the entire licence period, a mix of exclusivity and/or holdbacks against certain rights, including free-to-air, Pay TV and Home Entertainment, for a significant period is essential to the business model, yet to 'buy out' these rights requires additional expenditure over and above the \$440,000 pre-sale. This is also a drag on cash flows because payments are largely required upfront while Stan monetises the content over at least five to seven years.

From Stan's perspective, the minimum licence fee and related requirements/restrictions to qualify for Screen Australia funding have compromised the intended purpose of the support system, which is to encourage investment in quality local productions.

Stan recommends that there should either be no minimum licence fee or, if there must be a pre-set fee, it should reflect the current market rate for acquisitions. Any shortfall in the finance plan for a production that is left by such a change would be made up in equity contributions from the investing parties. This would encourage more investment in quality Australian drama as the production costs relative to alternative forms of content fall.

Potentially as an alternative, or in addition, to the assistance which is provided to producers, a form of government-backed loan facility for SVOD commissioning platforms would help to stimulate investment in Australian productions. This would help to ease the pressure on cash flows for SVOD commissioning platforms, incentivising further investment in local productions.

ii) The design of the current system, in the way that grant funding and the Producer Offset operates, is such that the level of investment of each of the involved parties is not reflected in the way that the equity is apportioned. As an SVOD commissioner Stan bears enormous costs and risk in funding the content's production, and is restricted in its ability to secure equity for the majority of these costs. It is extremely difficult to recoup costs under the current system and unless more material opportunities to recoup are created, Stan will not be able to grow its investment in local production.

Furthermore, the Producer Offset tax incentive is capped at 20% of Qualifying Australian Production Expenditure (QAPE) for television, compared to 40% of QAPE for film. Each of these mediums drive the same benefits in terms of jobs, income and contribution to Australian culture and identity so they should not be



treated differently. The Producer Offset rates for film and TV should be harmonised so they are both set at 40%.

(b) The contribution the Australian television industry makes to the economy

The Australian television industry makes a significant contribution to the local economy in various direct and indirect ways, including jobs, production, technology, advertising and taxation.

As the leading local SVOD player, Stan's contribution to the Australian economy is growing as it invests more in local productions and consumers increasingly take up the service. Stan's expenditure on production has contributed significantly to the Australian economy by providing jobs for local talent, crews, producers and other peripheral services. Each Stan production directly and indirectly employs many hundreds of people, from the principal cast and creatives all the way through to daily extras.

Stan has also been responsible for expenditure on goods and services which has benefitted thousands of Australians in the production and ancillary sectors, including media and marketing, hospitality, transport, IT and professional services.

Stan's success in selling its original productions into overseas markets has helped to promote Australian culture and identity internationally, as well as generating incremental revenues for local companies. Stan has already sold three of its productions (*Wolf Creek*, *Romper Stomper* and *No Activity*) to major overseas broadcasters and entertainment companies.

(c) The value and importance of local content requirements for television, radio and streaming services in Australia

Stan believes that introducing local content requirements to the SVOD sector would only stifle innovation and creativity at a time when Stan needs to be as nimble as possible to compete with an influx of global tech/media organisations into the market. Stan is not yet profitable and simply cannot afford to have the allocation of its content budget governed by quotas. Our intention to invest more in local production is evidenced by our record. However, we need to maintain flexibility over our own budget in order to compete with some of the world's biggest media companies. Stan will not be able to reach its full potential if we are restricted and inhibited by content quotas. Stan is not able to access broadcast spectrum or special government subsidies for sport. Instead, Stan competes in a global and largely unregulated market against organisations that are often not constrained by corporate tax or employment expenses in Australia. We believe applying quotas to SVOD platforms would only serve to reduce sustainable investment in Australian production as it will restrict the creative



and commercial capabilities of one of this country's most exciting and innovative media companies.

(d) related inquiries including submissions made to:

(A) the House of Representatives Standing Committee on Communications and the Arts inquiry into factors contributing to the growth and sustainability of the Australian film and television industry.

We note the Standing Committee made the recommendations set out below (among others). Our positions on the above issues were covered in Stan's submission to the Australian and Children's Content Review, and reiterated here where relevant.

- **Recommendation 1 Producer offset**

The Australian Government makes the following changes to the producer offset:

- Introduce a single offset level of 30 per cent for all types of qualifying production, which includes film and television.
- Remove the 65 hour cap on television series accessing the offset.

Stan's comment: As noted above, Stan believes the Producer Offsets for film and television should be harmonized at 40 per cent.

- **Recommendation 3 Australia's content quota system**

Reform to Australia's content quota system should include a requirement that SVOD services invest a percentage of revenue (e.g. 10%) in new Australian content.

Stan's comment: Please see Stan's response to term of reference (c) above.

(B) the Australian and Children's Content Review, undertaken by the Department of Communications and the Arts, the Australian Communications and Media Authority and Screen Australia.

Please refer to our submission to the Australian Children's Content Review, a copy of which is available at: <https://www.communications.gov.au/have-your-say/australian-and-childrens-screen-content-review>



Stan Entertainment Pty Ltd

Level 20, 321 Kent St, Sydney 2000, NSW, Australia ABN 94 168 856 924